



The 'right' Reward
Strategy for the
road to net zero

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The road to net zero

Climate change is the defining issue of our time. Government policies, customer, employee and consumer demands, investor pressure and technology are all converging to drive decarbonisation.

Against this backdrop, the role of business is shifting, as society is increasingly demanding that business acts as a force for good. Corporates will play a key role in responding to climate change. Numerous organisations have made public commitments to reduce greenhouse gas emissions.

Progress towards these goals needs a plan. The way any company acts today in response to climate change will almost certainly impact its degree of advantage tomorrow.



Why does this matter for the HR, Comp & Ben and Reward leaders?

Organizations are increasingly focusing on **sustainability¹ and purpose**, with ever greater focus on **Environmental, Social and Governance (ESG)** principles².

This places climate, social and governance response at the core of business strategy. And it is not only up to the Board and the executives to take action. They need of course to draw the lines of their sustainability strategy and plan, but it will be up to HR and Reward leaders to consider how their teams can contribute positively to these changing business priorities, supply chain changes and wider social purpose³.

Changes in the workplace and workforce create an opportunity for HR and Reward leaders to invent new approaches to reward. There may be an opportunity to focus the reward package more on output rather than input. COVID19 has highlighted the need to have a much more flexible workplace and workforce, executives and managers will need to be incentivized via the right incentives and targets to make the ESG ambitions happen, the employee mobility behavior will (need to) change, companies may need to be more transparent on how and what they pay, etc.

The focus on ESG will go further than only on the Environment. The social component of ESG is gaining more attention, especially since Covid19 and many of the S elements are directly related with the responsibilities of Reward leaders, in particular employment quality (such as Employee well-being, Employee attraction and retention, Fair Labour practices and Equal Pay, Employee engagement, training and development, Employee compensation schemes) and Human rights.

Further to the Governance component, the compensation of the executives needs to be fair and in line with the corporate governance rules (such as transparent and linked to performance). The G also stands for risk management and compliance, meaning for Reward that the compensation and benefits need to be compliant (for tax, social security, social law, etc.).

¹ "Sustainability" is often used to refer solely to environmental matters such as climate change, but the term can also refer to what it takes for an enterprise to achieve long-term existence, profitability, and growth. Thus, sustainability is not synonymous with ESG; rather, it encompasses ESG, because all three elements of ESG contribute to the sustainability of the enterprise.

² "Environment, Social, and Governance." While the meaning of "environment" and "governance" may be obvious, "social" may not be. "Social" refers to a broad swath of matters, ranging from human capital management and workforce issues to human rights to the company's role in society.

³ For the challenges for Global Mobility Leader:



Key ESG criteria to measure sustainability

Sustainability is not limited to environmental criteria's but has a broader scope including social and governance criteria

Emissions & air pollution

- CO2 emissions and other GHG emissions
- Air pollutants emissions (excl. GHG)

Energy

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- Air pollutants emissions (excl. GHG)

Resources

- Resource management and material handling e.g. hazardous
- Water and effluents management
- Land used
- Waste management

Employment quality

- Employee well being
- Employee attraction and retention
- Fair Labour practices
- Employee engagement, training and development
- Employee compensation schemes

Health & safety

- Processes & management systems
- Accident and illness rates
- Awareness raising

Diversity and inclusion

- Gender, Age group & Vulnerable Groups

Vision and strategy

- Company values
- Business ethics
- Transparency of reporting
- Policy development
- Risk management
- Compliance

Corporate management

- Executive compensation
- Board functions
- Board composition
- Committee structures

Responsible investment

- Investment strategy
- Institutional investors
- Principles for Responsible Investment
- Equator Principles

Product innovation

- Life cycle analysis / Circularity
- Product Design / Conscious design

Biodiversity

- Proximity to protected areas

Environmental Compliance

- Site history / potential contaminations
- Permits & regulatory compliance
- Asbestos and regulated substances
- Insurance & indemnities
- Noise

Product responsibility

- Responsible marketing
- Product safety and liability
- Access and affordability

Community relations

- Citizenship and contribution
- Government and civil - society relations
- Customer engagement

Human rights

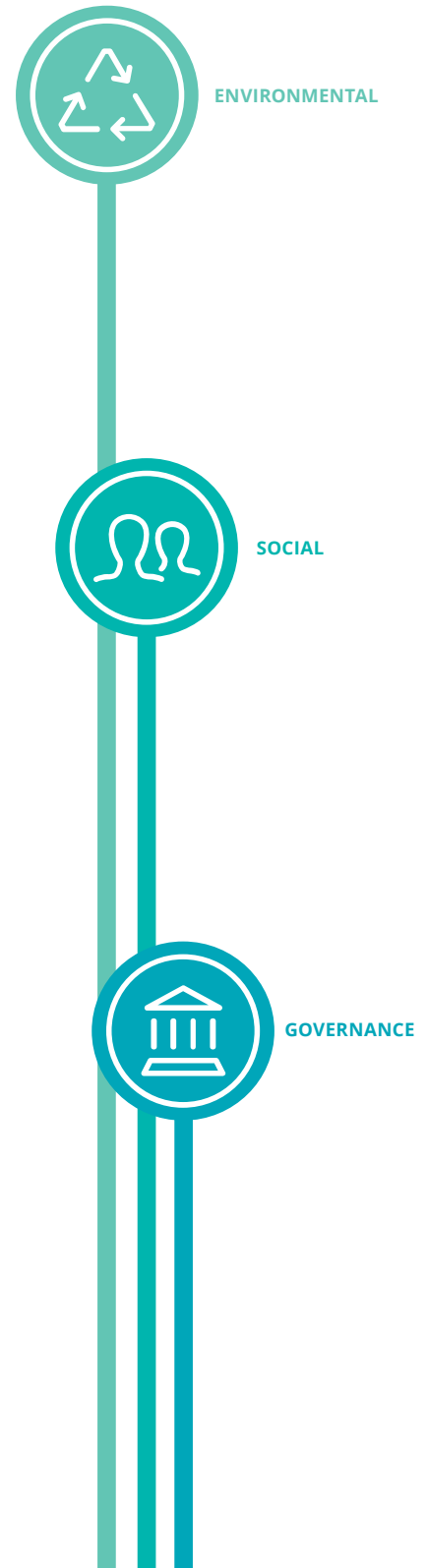
- Child labour
- Forced labour
- Indigenous rights

Ethics, anti-corruption and bribery

- Bribery and corruption
- Whistle-blower function
- Anticompetitive behaviour
- Lobbying
- Political contributions

Stakeholder engagement

- Collective bargaining agreement



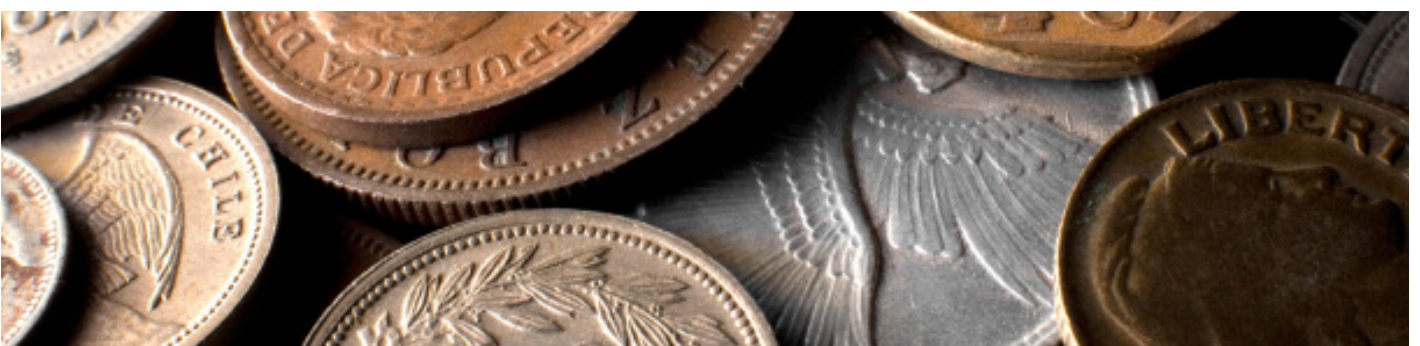
6 questions for comp & ben and reward leaders to consider

- 01** New ESG strategy: Is my team fully involved and aware of the ESG ambitions of our organization? What is the impact of the potential reorganisation of the business model and value & supply chain on talent and reward packages? Are Tax and Transfer Pricing teams aligned with HR, Reward and Legal when it comes to the impact on talent management, payroll tax, immigration, employment contracts and salary cost allocation?
- 02** Mobility: Is employee mobility (fleet) on its way to the net zero ambitions and the greenification in tax? Is the mobility budget considered? Not only to consider greener alternatives but to grant flexible choices and more autonomy to your workforce?
- 03** Compensation & benefits: Is the compensation & benefits strategy in itself sustainable? Is the pay throughout the organization equal? Are employees incentivized to contribute to the ESG ambitions? Is the employee well-being sufficiently translated in the benefits packages (pensions & insurances)? Does the organization offer sufficient flexible choices in their reward package to employees, adapted to their needs? Do you reimburse costs of homeworking? Is the full package sufficiently transparent?
- 04** Fix and variable: Is the current reward package still enabling the needs of the new business model? Do you reward input or rather output? Does it sufficiently drive the required innovation? Is the outcome of the short or long term incentive plans still appropriate? How do you keep people motivated? How do you combine merit increase and bonus with legally imposed index increases? What and how do you reimburse for increased home-work? How do you pay contractors and gig workers?
- 05** Executive pay: How can executives be incentivized to lead towards the set targets in the sustainability agenda? Can ESG targets for executives and management accelerate the organisation's ESG targets? Are the E, S and G well balanced with the financial KPI's in the short or long term bonus plan? How do you describe and measure the 'S' target?
- 06** Compliance: Are all compensations and benefits correctly reported and payroll taxes paid? Are your executives setting the tone at the top with their own remuneration package in terms of tax planning? Do you have a risk governance frame in place for termination compensations? Are all your HR and reward policies still up to date? (car policy, homework policy, cost allowances/expense policy, travel policy, diversity & inclusion/equal pay, ...)

Why Deloitte

Our team's experience covers from strategy to design and implementation: reward, compensation & benefits, tax & legal, employee communication, international mobility, social security, immigration, technology and processes, to help HR, Reward, Comp & Ben leaders design, implement and achieve their ESG strategy and purpose.

To the extent relevant, we work alongside our sustainability teams, who've helped define many of the sustainability frameworks and guidelines that are now well-established in Belgian and global businesses. Our team is very well placed to support you on your road to net zero.



Deloitte is committed to playing a leading role in building trust in business, driving more inclusive and sustainable growth, and enhancing skills, education and inclusion for all. WorldClimate is Deloitte's strategy to drive responsible climate choices within our organisation and beyond. The opportunity to create a more sustainable world is at our collective fingertips. We all are compelled to act.

Key Contacts



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